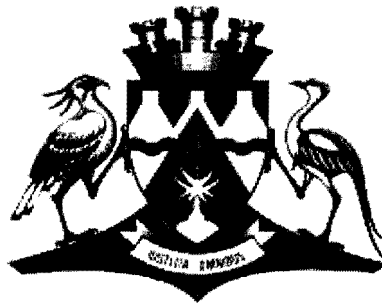


**PIXLEY KA SEME
DISTRICT MUNICIPALITY**



BORROWING POLICY

PIXLEY KA SEME DISTRICT MUNICIPAL BORROWING POLICY

Adoption : 2014/03/28

Review : 2018/05/28

TABLE OF CONTENTS

- 1. PURPOSE**
- 2. OBJECTIVE OF THE POLICY**
- 3. TERMINOLOGY AND DEFINITIONS**
- 4. SCOPE OF THE POLICY**
- 5. LEGISLATIVE FRAMEWORK AND DELEGATION OF AUTHORITY**
- 6. TYPES OF LOANS AND FINANCING**
- 7. OTHER CONSIDERATIONS**
- 8. REFINANCING DEBT**
- 9. DEBT REPAYMENT PERIOD**
- 10. SECURITY**
- 11. OVERDRAFT**
- 12. SHORT TERM DEBT**
- 13. DISCLOSURE**
- 14. APPROVAL OF LOANS BY THE MUNICIPALITY**
- 15. PROVISION FOR REDEMPTION OF LOANS**
- 16. NON-REPAYMENT OR NON-SERVING OF LOAN**
- 17. PROHIBITED BORROWING PRACTICES**
- 18. REPORTING AND MONITORING REQUIREMENTS**
- 19. MUNICIPAL REGULATIONS AND DEBT DISCLOSURE**
- 20. COMMENCEMENT**

MTK

1. PURPOSE

To establish a borrowing framework policy for the Municipality and set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds.

2. OBJECTIVE OF THE POLICY

The objectives of this policy are to:

- manage interest rate and credit risk exposure;
- maintain debt within specified limits and ensure adequate provision for the repayment of debt; and
- to ensure compliance with all Legislation and Council policy governing borrowing of funds.

3. TERMINOLOGY AND DEFINITIONS

In this Policy, unless the content indicates otherwise –

“Act” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

“Authorised official” means an employee of the Municipality responsible for carrying out any duty or function, or exercising any power in terms of this policy and includes employees delegated to carry out or exercise such duties, functions or powers.

“Council” means the Municipal Council of the Municipality.

“CFO” means the Chief Financial Officer.

“Disclosure statement” means a statement issued or to be issued by the Municipality which intends to incur debt by issuing municipal debt instruments.

“Financing agreement” means any loan agreement, lease, instalment, purchase arrangement under which the Municipality undertakes to repay a long-term debt over a period of time.

“Lender” means a juristic person who provides debt finance to the Municipality.

“Long term debt” means debt repayable by the Municipality over a period exceeding one (1) year.

“Municipality” means the Pixley Ka Seme District Municipality.

“Municipal debt” means:

- (a) a monetary liability or obligation on a Municipality by –
 - i) a financing agreement, note, debenture, bond or overdraft; and

WTK

- ii) the issuance of municipal debt instruments; and
- (b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

“Security” means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

“Short term debt” means debt that is repayable over a period not exceeding one (1) year.

4. SCOPE OF THE POLICY

The primary goal in the borrowing of funds is to ensure that the funds are obtained at the lowest possible interest rates at minimum risk, within the parameters of authorised borrowings.

4.1 Risk Management

The need to manage interest rate risk, credit risk exposure and to maintain debt within specified limits is the foremost objective of the borrowing policy, to attain this objective, diversification is required to ensure that the CFO prudently manages interest rate and credit risk exposure.

4.2 Cost of Borrowings

The borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of borrowing risk constraints, infrastructure needs and the borrowing limits determined by Legislation.

4.3 Prudence

Borrowings shall be made with care, skill, prudence and diligence.

5. LEGISLATIVE FRAMEWORK AND DELAGATION OF AUTHORITY

The legislative framework governing borrowing is informed by the following legislation:

- a) Local Government Municipal Finance Management Act (Act No. 56 of 2003); and
- b) Municipal Regulations on Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007.

6. TYPES OF LOANS AND FINANCING

6.1 Annuity loans

Annuity loans are straight forward and uncomplicated. The loan amount, interest rate and repayment period offered by the Financial Institution are fixed. The calculation of the instalment payable on an annuity/fixed redemption basis is simple and straight forward. Normally with an annuity loan, the instalment of the loan will be repaid in equal monthly instalments over the term of the loan. The capital portion of the instalment will increase over the duration of the loan, and conversely, the interest charged will decrease over the loan period. The fixing of debt repayments is an

MTK

important consideration in meeting the financial requirements of the Municipality, that of annually producing a balanced budget.

6.2 Use of Internal Funds

The Municipality from time to time, will use certain of its surplus funds to fund its capital programme. The utilisation of surplus funds enables the Municipality to reduce its reliance on external debt financing, thereby allowing it to borrow only funds from external sources when favourable market conditions prevail. The use of internal funds impacts negatively on surplus cash for return of interest and should be within limits to reduce the impact on fixed cost coverage.

7. OTHER CONSIDERATIONS

Factors to be considered when borrowing:

- (a) The type and extent of benefits to be obtained from the borrowing;
- (b) The length of time the benefits will be received;
- (c) The beneficiaries of the acquisition of development;
- (d) The impact of interest and redemption payments on both current and forecasted revenue;
- (e) The current and future income capacity to pay for borrowings;
- (f) Likely movements in interest rates for variable borrowings;
- (g) Other current and projected sources of funds;
- (h) Competing demands for funds;
- (i) Timing of money market interest rate movements and the long term rates on the interest rate curve.

The Municipality will, in general, seek to minimise its dependence on borrowings in order to minimise future revenue committed to debt servicing and redemption charges. The Municipality may only borrow funds in terms of the MFMA, for the purpose of acquiring assets, improving facilities or infrastructure to provide service delivery.

Pixley Ka Seme District Municipality may incur long term debt only for the purpose of capital expenditure on property, plant and equipment to be used for the purpose of achieving the objects of Local Government as set out in Section 152 of the Constitution.

8. REFINANCING DEBT

Section 46 of the MFMA provides that the Municipality may refinance existing long term debt, if such refinancing is in accordance with the prescribed framework. The Municipality may borrow money for the purpose of refinancing existing long term debt, provided the existing long term debt was lawfully incurred and the refinancing will not extend the term of the debt beyond the useful life of the property, plant and equipment for which the money was originally borrowed. Cognisance must be taken of any early repayment penalty clauses in the initial loan agreement, as part of the financial feasibility assessment. No loans will be prematurely redeemed unless there is a financial benefit to the Municipality.

9. DEBT REPAYMENT PERIOD

The period for which loan debt may be received will vary from time to time according to the needs of the various lenders. Cognisance is taken of the useful lives of the underlying assets to be financed by the debt, and, moreover, careful consideration is taken of the interest rates. Should it be established that it is cost effective to borrow the funds on a shorter duration (as opposed to the life of the asset) as indicated by the interest yield curve, the loan will be negotiated to optimise the most favourable and cost effective benefit to the Municipality.

10. SECURITY

The MFMA provides that the Municipality may provide security for any of its debt obligations, including the giving of a lien, pledging, mortgaging or ceding an asset, or giving any other form of collateral. It may cede as security any category of revenue or rights of future revenue. Some Lenders may require the Municipality to agree to restrictions on debt that the Municipality may incur in future until the secured debt is settled.

11. OVERDRAFT

The Municipality has a bank overdraft facility.

12. SHORT TERM DEBT

The MFMA provides that the Municipality may incur short term debt when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year, or capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long term debt commitments.

The municipal council may approve an individual transaction or a credit facility for a line of credit or overdraft facility.

The Municipality must pay off short term debt within the same financial year and may not renew or refinance its short term debt if it will have the effect of extending the short term debt into a new financial year.

13. DISCLOSURE

The Municipality must, when interacting with a prospective Lender or when preparing documentation for consideration by a prospective Investor, disclose all relevant information that may be requested or that may be material to the decision of the prospective Lender or Investor. Reasonable care must be taken to ensure the accuracy of any information disclosed. Whilst this is a standard and acceptable business practice, it is also in compliance with Section 49 of the MFMA.

nTTk

14. APPROVAL OF LOANS BY THE MUNICIPALITY

Section 46 of the MFMA stipulates that the Municipality may incur long-term debt only if a resolution of the Council, signed by the Mayor, has approved the debt agreement and the Accounting Officer has signed the agreement or other document which acknowledges the debt. At least 21 days prior to the meeting of the Council at which approval for the debt is to be considered, the Municipality must make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purpose for which the debt is to be incurred and particulars of any security to be provided. The Public, the National Treasury and Provincial Treasury must be invited to submit written comments or representations to the council in respect of the proposed debt.

A copy of the information statement submitted to Council at least 21 days prior to the meeting to approve the loan agreement must contain particulars of –

- (a) the essential repayment terms, including the anticipated debt repayment schedule; and
- (b) the anticipated total cost in connection with such debt over the repayment period.

15. PROVISION FOR REDEMPTION OF LOANS

The Municipality may borrow from Institutions and set up sinking funds to facilitate loan repayments, especially when the repayment is to be a bullet payment on the maturity date of the loan. These sinking funds may also be invested directly with the Lender's Bank. The maturity date and accumulated value of such investment must coincide with the maturity date and amount of the intended loan that is to be repaid.

16. NON-REPAYMENT OR NON-SERVING OF LOAN

The Municipality must honour all its loan obligations timeously. Failure to effect prompt payment will adversely affect the raising of future loans at favourable costs of borrowing.

Failure to pay any loan instalment, even by one day, and even if only through administrative oversight, will have severe repercussions, and may jeopardise the Municipality's credit rating

In addition to the timeous payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements.

17. PROHIBITED BORROWING PRACTICE

The Municipality shall not borrow for investment purposes, with the sole purpose of investing to earn a return. The cost of debt is always more expensive than the return that the Municipality can derive by investing in permitted investments.

Foreign borrowing is permitted in terms of Section 47 of the MFMA whereby the debt must be denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

MTK

18. REPORTING AND MONITORING REQUIREMENTS

The Municipality submits returns to National Treasury quarterly and annually, as well as submissions to Council. It is mainly coordinated by the Financial Services Department.

19. MUNICIPAL REGULATIONS ON DEBT DISCLOSURE

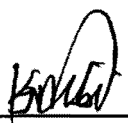
The Municipal Regulations on Debt Disclosure has been promulgated (Government Gazette no. 29966, 15 June 2007) and has been effective from 01 July 2007 for a municipality or municipal entity. Refer to Annexure A2, MFMA: Municipal Regulations on Debt Disclosure.

The implementation of the regulations will help to strengthen the level of confidence in municipal fiscal affairs and enable the capital markets to effectively participate by providing access to a range of competitive funding instruments for the provision of municipal infrastructure and other capital development in accordance with Section 46 of the MFMA.

20. COMMENCEMENT

This Policy takes effect on 01 July 2018.

EXECUTIVE MAYOR :



DATE POLICY APPROVED :

28 March 2014

RESOLUTION :

R 2014 – 03 – 28 (9.9)

DATE POLICY REVIEWED :

28 MAY 2018

RESOLUTION :

R 2018 – 05 – 28 (9.6)